

Date of Hearing: March 18, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AJR 37 (Muratsuchi) – As Introduced: February 19, 2014

SUBJECT: Export-Import Bank of the United States

SUMMARY: Memorializes the Legislature's desire for the U.S. Congress to support legislation reauthorizing the Export-Import Bank of the United States (Ex-Im Bank). Specifically, this resolution:

- 1) Makes findings and declarations that, among other things, state:
 - a) The Ex-Im Bank is the official export credit agency of the U.S. and exists for the purposes of financing and insuring foreign purchases of U.S. goods for customers unable or unwilling to accept the credit risk;
 - b) The Ex-Im Bank has supported more than \$400 billion in U.S. exports in the past 70 years and helps to cover critical trade finance gaps by providing loan guarantees, export credit insurance, and direct loans for U.S. exports in developing markets where commercial bank financing is unavailable or insufficient. In Fiscal Year 2012, Ex-Im financing of U.S. exports exceeded \$35 billion, assisting more than 3,400 U.S. companies and supporting approximately 255,000 export-related American jobs;
 - c) The Ex-Im Bank is a self-sustaining agency, which operates at no cost to the taxpayer and, between the 2008–09 to 2011–12 fiscal years, inclusive, the Ex-Im Bank has generated \$1.6 billion in excess revenue for U.S. taxpayers; and
 - d) Exports are particularly important to the California economy as California is currently ranked second in exports among all states. If California's manufacturing base is to grow, we must continue to expand our ability to export goods from California facilities. Given the key role the Ex-Im Bank plays in facilitating export sales, failure to reauthorize it would be devastating to existing industry and to those that we hope to create in the future.
- 2) Resolves that the California Legislature desires the U.S. Congress to support the reauthorizing of the Ex-Im Bank.
- 3) Directs the Chief Clerk to transmit copies of this resolution to the President and Vice President of the U.S., to the Speaker of the U.S. House of Representatives, to the Majority Leader of the U.S. Senate, and to each Senator and Representative from California in the Congress of the United States.

EXISTING FEDERAL LAW establishes the Ex-Im Bank for the purpose of financing and insuring foreign purchases of U.S. goods and services to international markets.

FISCAL EFFECT: None

COMMENTS:

- 1) Author's Purpose: According to the author, "The Export-Import Bank is the official export credit

agency of the United States that exists for the purposes of financing and insuring foreign purchases of United States goods for customers unable or unwilling to accept credit risk. The Bank has supported more than \$500 billion in U.S. exports in the past eighty years and helps to cover critical trade finance gaps by providing loan guarantees, export credit insurance, and direct loans for U.S. exports in developing markets where commercial bank financing is unavailable or insufficient. It should be noted that the Export-Import Bank has maintained a very low default rate of less than 2%. The Bank is currently up for reauthorization in the U.S. Congress. Given the key role the Bank plays in facilitating export sales, failure to reauthorize it could be devastating to a number of industries. This resolution would urge Congress to reauthorize the Export-Import Bank when it comes up for consideration this year."

- 2) Framing the Policy Issue: This resolution seeks state legislative support for federal advocacy to support the reauthorization of the Ex-Im Bank. With California businesses being one of the largest users of Ex-Im Bank programs and the state being one of the hardest hit in the recession, California's opinion on reauthorization has particular merit in the national debate.

In deliberating the appropriateness of this resolution, Members may wish to consider the importance of trade within the California economy, the continuing need for programs to assist businesses in accessing capital and new markets, and the ability of the federal government to operate the Ex-Im Bank without ongoing costs to the public. Each of these issues is discussed in greater detail below.

- 3) Background on the Bank: The Ex-Im Bank is an independent federal agency that provides a variety of financial and insurance products that are designed to fill gaps in private export financing. Last authorized in 2012, the Ex-Im Bank needs to be reauthorized by September 30, 2014. The Ex-Im Bank operates at no cost to American taxpayers and, in 2013, the Ex-Im Bank generated more than \$1 billion in revenues above the actual amount necessary to operate its programs and maintain prudent loss reserves.

In the federal fiscal year (FFY) 2013, the Ex-Im Bank approved more than \$27 billion in financial authorizations, which supported an estimated \$37.4 billion in export sales and approximately 205,000 U.S. jobs. Since 2009, the Ex-Im Bank has supported nearly 2.1 million private sector jobs.

Of the total transactions in 2013, approximately 89% (3,413) of the financial transactions were with small business for a total of \$6 billion. Of that \$6 billion in small business transactions, \$5.2 billion were for direct support of small businesses and \$800 million was attributed to small business inputs within the supply chain of larger U.S. exporting companies. FFY 2013 was also a historically high year for women and minority-owned firms, with the Ex-Im Bank completing 761 transactions for a total of \$815.5 million. This represents one in five businesses assisted in FFY 2013 were a woman- or minority-owned business.

Between 2012 and 2014, \$91 billion in financial authorizations went to 530 California exporters, which supported \$10 billion in sales. Of those exporters, 412 were small businesses, 67 were minority-owned businesses, and 41 were women-owned businesses. The three top export destinations for California products were Mexico, Singapore, and Germany. More businesses in California use the Ex-Im Bank than from any other state except Texas, 530 vs. 661. However, of those businesses, California has a significantly higher number of small businesses, 412 vs. 366.

Other accomplishments in the past several years include an enhanced risk management approach which materially reduced defaults since the financial crisis. The default rate for the final quarter of

2013 was 0.267%. Fred Hochberg, the Chair and President of the Ex-Im Bank attributes the low default rate to the Bank's continued prudent oversight and due diligence standards. Key changes identified in Congressional testimony include modernizing the Bank's credit monitoring techniques, creating a special assets unit to address emerging credit issues; improving underwriting, and enhancing credit loss modeling with qualitative factors. In preparation for reauthorization, the Ex-Im Bank has met all its reporting requirements including the preparation of a current business plan, publication of a small business report, and submittal of quarterly default reports.

*Information for this comment came from a variety of sources including, but not limited to, written testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs (January 28, 2014), and the Ex-Im Bank website.

- 4) **California's Trade-Based Economy:** International trade and foreign investment serve as critical components of California's \$2.0 trillion economy. If California were a country, it would be the 17th largest exporter and the 14th largest importer in the world. Merchandise exports from California (\$168 billion) accounted for over 10.6% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2013.

California's land, sea, and air ports of entry served as key international commercial gateways for the \$538 billion in products entering and exiting the U.S. in 2012. Statewide, 4.4 million California jobs are dependent on foreign trade. Over 562,700 California workers benefit from jobs with foreign-owned firms, which accounts for 5.1% of all private sector jobs in the state.

The importance of trade to the California economy is increasing as a percentage of California jobs tied to trade more than doubled from 1992 to 2011, 10.6% v. 22.0%. Most recently, the value of trade-related work, as a component of the broader economy was the subject of a study by the Brookings Institute and JP Morgan Chase, *Export Nation 2013*. The report found that between 2003 to 2012 exports drove post-recession growth in the 100 largest metro areas including Los Angeles, San Diego, and the Inland Empire. The study is unique in that it collects data by origin or production rather than origin of export movement, as is the case with the U.S. Department of Commerce export data.

Using the *Export Nation* methodology, total California exports for goods and services in 2012 was \$252 billion, as compared to the U.S. Census Bureau's 2012 number of \$162 billion for goods only, as measured by origin of movement. In 2012, exports represented 8.8% of California GDP, based on the *Export Nation* methodology. The top five metro areas in California include: (1) Los Angeles (37.1%); (2) San Francisco (15%); (3) San Jose (13.7%); (4) San Diego (11.5%), and (5) the Inland Empire (9.2%). **Chart 1** includes more specific data on selected California exports of goods and services, as expressed in 2012 dollars (adjusted for inflation) and based on the *Export Nation* methodology.

Chart 1 – Southern California Largest Metro Areas Exports (2007-2012)(in millions, adjusted for inflation)						
Metropolitan Statistical Area	2003 Exports (millions)	2012 Exports (millions)	Export Share of GDP	Export in Goods 2012	Export in Services 2012	Annualized 2009-2012 Growth in Manufacturing (Post- Recession)
El Centro, CA Metropolitan Statistical Area	432.7954	586.8708	9.3%	456.5946	130.2762	8.9%

Los Angeles-Long Beach-Santa Ana, CA Metropolitan Statistical Area	62850.51	93871.65	12.0%	56462.39	37409.26	4.0%
Oxnard-Thousand Oaks-Ventura, CA Metropolitan Statistical Area	3997.99	6462.674	15.2%	4822.016	1640.658	3.8%
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	7999.825	13128.07	9.2%	8407.373	4720.697	5.9%
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	11996.96	21613.47	11.5%	13702.52	7910.954	7.2%
San Francisco-Oakland-Fremont, CA Metropolitan Statistical Area	15417.44	38046.75	12.5%	23306.12	14740.64	-0.7%
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	21384.90	34641.22	23.8%	26418.39	8222.831	10.9%
Source: Export Nation 2013, Global Cities Initiative, a joint project of Brookings Institute and JP Morgan Chase						

Trade and foreign investment support new job creation, bring new technologies and skills to California workers, generate local and state revenues, and generally strengthen the state's economic base. In the future, California's economy will become increasingly reliant on accessing foreign markets where a majority of global economic growth is expected to occur.

5) Related Legislation: Below is a list of legislation from the current and prior legislative sessions.

- a) *AB 29 (John A. Pérez, Feuer and V. Manuel Pérez) Governor's Office of Business and Economic Development*: This bill establishes the Governor's Office of Business and Economic Development for the purpose of serving as the lead entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
- b) *AB 311 (V. Manuel Pérez) Bi-National Infrastructure and Economic Development Bank*: This bill would have expanded the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Held in the Assembly Committee on Appropriations, 2013.
- c) *AB 690 (Campos and Medina) Office of California and Mexico Affairs*: This bill repeals and recasts statutory provisions within the Government Code relating to California and Mexico relations including adding the Director of the Governor's Office of Business and Economic Development to the membership of the California-Mexico Border Relations Council and designating him or her as Chair. Status: Pending in the Senate Committee on Business, Professions, and Economic Development.
- d) *AB 886 (Allen) Export and Import Credit*: This bill would have established a capped and allocated tax credit for importers and exporters that increase cargo through California air and sea ports, hire additional staff, or incur capital costs at a California cargo facility. Status: Held in the Assembly Committee on Appropriations, 2013.
- e) *AB 1247 (Medina and Bocanegra) Small Business Finance Center*: This bill establishes the Small Business Finance Center within the California Infrastructure and Economic Development Bank for the purpose of establishing a one-stop-shop for small businesses interested in utilizing state loan and credit program including export finance guarantees. Status: Signed by the Governor, Chapter 537, Statutes of 2013.

- f) *AB 1399 (Medina and V. Manuel Pérez) New Markets Tax Credits*: This bill creates a \$200 million state New Markets Tax Credit Program for the purpose of stimulating economic development and hasten California's economic recovery, generally paralleling the federal New Markets Tax Credit. Tax expenditure authority for this measure is provided through the reallocation of previously authorized expenditures from the California State Sales and Use Tax Exclusion Program. Status: Pending in the Senate Committee on Governance and Finance.
- g) *AB 1400 (Assembly Committee on Jobs, Economic Development, and the Economy) Export Document Certificates*: This bill modifies the state's Export Document Program to accept requests electronically, expedite approval of existing labels, and extend the term of the export labels from 180 days to 365 days, in order to alleviate backlog of exports of food, drug, and medical devices. Status: Signed by the Governor, Chapter 539, Statutes of 2013.
- h) *AB 2012 (John A. Pérez) Economic Development Reorganization*: This bill transferred the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to GO-Biz. In addition, the bill transfers the responsibility for establishing an Internet-based permit assistance center from the Secretary of the California Environmental Protection Agency to GO-Biz. Status: Signed by the Governor, Chapter 294, Statutes of 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

California Manufacturers & Technology Association
Orange County Business Council
California Chamber of Commerce

Opposition

None received

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